

CITY OF HARTFORD
AUDIT REPORT
DECEMBER 31, 2009

**CITY OF HARTFORD
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Hartford
Hartford, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as December 31, 2009, and for the year then ended, and have issued my report thereon dated April 2, 2010.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hartford's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Hartford's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

I consider the deficiency described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item number

2008-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

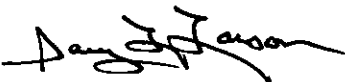
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2009-01 in the schedule of current audit findings to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. See item number 2008-02 in the accompany schedule of current audit findings.

The City of Hartford's response to the findings identified in my audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. I did not audit the City's response and accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Hartford, the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11, this report is a matter of public record and its distribution is not limited.


April 2, 2010

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Hartford
Hartford, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, as of December 31, 2009, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hartford's management. My responsibility is to express opinions on these financial statements based on my audit.

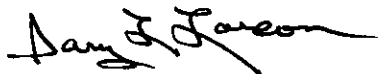
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartford, South Dakota, at December 31, 2009, the respective changes in financial position and cash flows where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated April 2, 2010 on my consideration of the City of Hartford's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information on pages 44 through 46 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

The City has not presented the Management's Discussion and Analysis information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



April 2, 2010

CITY OF HARTFORD
STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$970,464	\$637,617	\$1,608,081
Accounts receivable	0	54,398	54,398
Taxes receivable	17,100	0	17,100
Special assessment receivables	93,609	0	93,609
Due from other governments	18,432	0	18,432
Inventories	46,661	14,893	61,554
Deferred charges	0	1,681,643	1,681,643
Restricted assets:			
Cash and cash equivalents	67,000	0	67,000
Capital assets:			
Land	195,055	149,000	344,055
Other capital assets, net of depreciation	4,325,366	5,774,293	10,099,659
TOTAL ASSETS	\$5,733,687	\$8,311,844	\$14,045,531
LIABILITIES:			
Accounts payable	47,442	18,295	65,737
Deferred revenue	86,382	0	86,382
Other current liabilities	2,938	37,176	40,114
Noncurrent liabilities			
Due within one year	121,043	162,093	283,136
Due in more than one year	826,595	3,007,065	3,833,660
TOTAL LIABILITIES	1,084,400	3,224,629	4,309,029
NET ASSETS:			
Invested in capital assets, net of related debt	3,584,747	2,760,225	6,344,972
Restricted for:			
Debt service	67,000	0	67,000
Unrestricted	997,540	2,326,990	3,324,530
TOTAL NET ASSETS	4,649,287	5,087,215	9,736,502
TOTAL LIABILITIES AND NET ASSETS	\$5,733,687	\$8,311,844	\$14,045,531

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF HARTFORD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009**

PROGRAM REVENUES

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Changes for Services</u>
Governmental Activities:		
General government	\$423,319	\$0
Public safety	264,085	2,004
Public works	418,581	28,562
Culture and recreation	229,151	14,264
Conservation and development	128,036	0
*Interest on long-term debt	152,054	0
TOTAL GOVERNMENTAL ACTIVITIES	<u>1,615,226</u>	<u>44,830</u>
Business-type Activities:		
Water	499,306	393,428
Sewer	412,364	245,350
TOTAL BUSINESS-TYPE ACTIVITIES	<u>911,670</u>	<u>638,778</u>
TOTAL	<u><u>\$2,526,896</u></u>	<u><u>\$683,608</u></u>

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net assets

Net Assets-beginning

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Governmental Activities	Business-type Activities	Total
(\$423,319)	\$0	(\$423,319)
(262,081)	0	(262,081)
(390,019)	0	(390,019)
(214,887)	0	(214,887)
(128,036)	0	(128,036)
(152,054)	0	(152,054)
(1,570,396)	0	(1,570,396)
0	(105,878)	(105,878)
0	(167,014)	(167,014)
0	(272,892)	(272,892)
(\$1,570,396)	(\$272,892)	(\$1,843,288)
742,080	0	742,080
497,992	0	497,992
56,066	0	56,066
17,105	6,079	23,184
85,475	0	85,475
1,398,718	6,079	1,404,797
(171,678)	(266,813)	(438,491)
4,820,965	5,354,028	10,174,993
\$4,649,287	\$5,087,215	\$9,736,502

CITY OF HARTFORD
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$916,729	\$53,735	\$970,464
Taxes receivable- Delinquent	17,100	0	17,100
Special assessments receivable- Deferred	93,609	0	93,609
Due from other governments	17,337	1,095	18,432
Inventory of supplies	46,661	0	46,661
Restricted cash	0	67,000	67,000
TOTAL ASSETS	<u>\$1,091,436</u>	<u>\$121,830</u>	<u>\$1,213,266</u>
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$47,442	\$0	\$47,442
Accrued wages	2,938	0	2,938
Deferred revenue	188,541	0	188,541
TOTAL LIABILITIES	<u>238,921</u>	<u>0</u>	<u>238,921</u>
 FUND BALANCES:			
Reserved for:			
Inventory	46,661	0	46,661
Debt service	0	67,000	67,000
Unreserved			
Designated for fiscal 2010 budget	36,799	0	36,799
Reported in non-major Special Revenue Funds	0	54,830	54,830
Undesignated	769,055	0	769,055
TOTAL FUND BALANCE	<u>852,515</u>	<u>121,830</u>	<u>974,345</u>
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,091,436</u>	<u>\$121,830</u>	<u>\$1,213,266</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

Total Fund Balances-Governmental Funds	\$974,345
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	4,520,421
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Long-term liabilities, including bonds payable and accrued leave are not due and payable in the current period and therefore are not reported in the funds	(947,638)
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Property taxes and special assessments receivable are reported in the period to be financed by the levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	<u>102,159</u>
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Net Assets-Governmental Funds	<u><u>\$4,649,287</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$738,430	\$0	\$738,430
General sales taxes	459,893	29,999	489,892
Gross receipts tax	7,704	0	7,704
Amusement taxes	396	0	396
Penalties and interest on tax	1,467	0	1,467
Licenses and permits	86,262	0	86,262
Intergovernmental Revenue			
State shared revenues	65,791	0	65,791
County shared revenues	18,837	0	18,837
Charges for Goods and Services:			
Culture and recreation	14,264	0	14,264
Fines and Forfeits:			
Court fines and costs	2,004	0	2,004
Miscellaneous Revenue			
Interest earned	16,449	656	17,105
Special assessments	39,601	0	39,601
Other	2,860	0	2,860
Total Revenue	<u>\$1,453,958</u>	<u>\$30,655</u>	<u>\$1,484,613</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$22,743	\$0	\$22,743
Executive	4,261	0	4,261
Elections	748	0	748
Financial administration	212,738	0	212,738
Other	99,092	0	99,092
Public Safety			
Police	127,468	0	127,468
Fire	113,569	0	113,569
Public Works			
Highways and streets	280,291	0	280,291
Culture and Recreation:			
Recreation	82,904	0	82,904
Parks	106,197	0	106,197
Libraries	2,596	0	2,596
Conservation and development			
Economic development	49,429	78,607	128,036
Debt service	256,015	0	256,015
Capital Outlay	232,991	18,036	251,027
Total Expenditures	<u>\$1,591,042</u>	<u>\$96,643</u>	<u>\$1,687,685</u>
Excess of revenues over (under) expenditures	(137,084)	(65,988)	(203,072)
Other Financing Sources (Uses):			
Transfers-in	22,509	0	22,509
Transfers-out	<u>0</u>	<u>(22,509)</u>	<u>(22,509)</u>
Net Change in Fund Balances	(114,575)	(88,497)	(203,072)
FUND BALANCE, JANUARY 1, 2009	<u>967,090</u>	<u>210,327</u>	<u>1,177,417</u>
FUND BALANCE, DECEMBER 31, 2009	<u><u>\$852,515</u></u>	<u><u>\$121,830</u></u>	<u><u>\$974,345</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES TO THE GOVERNMENT - WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

Net Changes in Fund Balances-Total Governmental Funds (\$203,072)

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives and reported
as depreciation expense. This is the amount by which depreciation
exceeded capital outlays in the current period (37,078)

Repayment of bond principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
Statement of Net Assets 103,961

Property tax and special assessment revenues are reported in the
period to be financed by the property tax levy for both the
governmental funds and the governmental activities, but in the funds
statement, any amounts that are not "available" are offset with
deferred revenue (41,065)

Governmental funds do not reflect the change in accrued leave,
but the Statement of Activities reflects this change through expenses 5,576

Change in Net Assets of Governmental Activities (\$171,678)

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$447,981	\$189,636	\$637,617
Accounts receivable	28,684	25,714	54,398
Inventory of supplies	10,241	4,652	14,893
Total Current Assets	486,906	220,002	706,908
Noncurrent Assets:			
Deferred charges	1,681,643	0	1,681,643
Capital Assets:			
Land	0	149,000	149,000
Buildings	0	550,000	550,000
Improvements other than buildings	3,797,936	4,740,256	8,538,192
Machinery and equipment	32,534	88,880	121,414
Accumulated depreciation	(1,386,340)	(2,048,973)	(3,435,313)
Total Noncurrent Assets	4,125,773	3,479,163	7,604,936
TOTAL ASSETS	\$4,612,679	\$3,699,165	\$8,311,844

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2009

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Total
LIABILITIES			
Current Liabilities:			
Accounts payable	\$6,312	\$11,983	\$18,295
Accrued wages payable	260	291	551
Customer deposits	36,625	0	36,625
Current portion of long-term debt	81,490	80,603	162,093
Total Current Liabilities	124,687	92,877	217,564
 Noncurrent Liabilities:			
Bonds payable:			
Revenue	1,571,819	1,432,202	3,004,021
Accrued leave	1,522	1,522	3,044
Total Noncurrent Liabilities	1,573,341	1,433,724	3,007,065
 NET ASSETS			
Invested in capital assets, net of related debt	792,344	1,967,881	2,760,225
Unrestricted net assets	2,122,307	204,683	2,326,990
Total Net Assets	2,914,651	2,172,564	5,087,215
 TOTAL LIABILITIES AND NET ASSETS	\$4,612,679	\$3,699,165	\$8,311,844

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

	ENTERPRISE FUND		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES:			
Charges for goods and services	\$393,428	\$245,350	\$638,778
OPERATING EXPENSES:			
Personal services	32,069	31,668	63,737
Other current expense	43,105	66,694	109,799
Cost of goods sold	87,052	0	87,052
Depreciation and amortization	280,144	255,026	535,170
Total Operating Expenses	442,370	353,388	795,758
Operating Income (loss)	(48,942)	(108,038)	(156,980)
Non-operating Revenue (Expense)			
Interest earned	3,135	2,944	6,079
Interest expense	(56,936)	(58,976)	(115,912)
Total Non-operating Revenue (Expense)	(53,801)	(56,032)	(109,833)
Change in Net Assets	(102,743)	(164,070)	(266,813)
NET ASSETS, BEGINNING	3,017,394	2,336,634	5,354,028
NET ASSETS, ENDING	\$2,914,651	\$2,172,564	\$5,087,215

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2009

ENTERPRISE FUND

	Water Fund	Sewer Fund	Total
Cash Flows from Operating Activities:			
Receipts from customers	\$390,904	\$246,217	\$637,121
Receipts for interfund services	7,535	592	8,127
Payments to suppliers	(102,621)	(59,877)	(162,498)
Payments for interfund services	0	(306)	(306)
Payments to employees	(32,079)	(31,726)	(63,805)
Net Cash Provided by Operating Activities	263,739	154,900	418,639
Cash Flows from Capital and Related Financing Activities:			
Proceeds of capital assets	(2,521)	0	(2,521)
Debt principal paid	(77,985)	(76,839)	(154,824)
Debt interest paid	(56,936)	(58,976)	(115,912)
Cash Flows from Investing Activities:			
Cash received for interest	3,135	2,944	6,079
Net Increase (Decrease) in Cash and Cash Equivalents	129,432	22,029	151,461
Cash and Cash Equivalents Beginning of Year	318,549	167,607	486,156
Cash and Cash Equivalents End of Year	\$447,981	\$189,636	\$637,617
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(\$48,942)	(\$108,038)	(\$156,980)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and Amortization	280,144	255,026	535,170
Changes in Assets and Liabilities:			
Receivables	1,336	1,459	2,795
Inventories	27,338	(148)	27,190
Accounts and other payables	188	6,601	6,789
Customer deposits	3,675	0	3,675
Net Cash Provided by Operating Activities	\$263,739	\$154,900	\$418,639

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2009

	Agency Funds
ASSETS:	
Cash and cash equivalents	<u>\$303,629</u>
TOTAL ASSETS	<u><u>\$303,629</u></u>
LIABILITIES:	
Amounts held for others	<u>\$303,629</u>
NET ASSETS	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$303,629</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Hartford consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause their financial reporting entity's financial statements to be misleading or incomplete.

The accounting policies of the city conform to generally accepted accounting principles as applicable to governments.

b. Basis of Presentation:

BASIS OF PRESENTATION

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Additional Sales Tax	A fund established by South Dakota Codified Law (SDCL) 10-52-2, to pay debt service on bonds and other costs of capital improvements and land acquisition. The fund is financed by a "Second Penny" retail sales tax collected prior to December 31, 2002. This is not a major fund.
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"Second Penny" sales tax collected after December 31, 2002 is unrestricted, therefore it is accounted for in the General Fund.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Third Penny Fund	A fund established by SDCL 10-52A used to pay for promotion of the City. It is financed by a gross receipts tax on bars, restaurants and motels. This is not a major fund.
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Capital Project Funds: These funds are used to account for building projects including infrastructure improvements and the applicable financing of these projects.

The only Capital Project Fund maintained by the City during 2009 was the "2007 Improvement Fund." The purpose of this fund is to construct selected street, storm sewer, water and sanitary sewer improvements. The project was funded in 2007 by transfers from the General Fund and proceeds of long-term debt (including Special Assessment and "SRF" loans). This is not a major fund in 2009.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund	a fund used to record financial transactions related to water
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CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund

a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following and are never considered to be major funds:

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds are all special assessment funds.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Hartford, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2009 are sales tax, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The business-type activities and enterprise funds do not apply any FASB Statements and interpretations issued after November 30, 1989.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on the interfund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The total December 31, 2009 balance of governmental activities capital assets includes approximately 80 percent for which the costs were determined by estimates of the original costs. The total December 31, 2009 balance of business-type capital assets includes 70 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2003, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2003 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ ALL	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	500	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of revenue bonds payable and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK:

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits city funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

No investments were held as of December 31, 2009.

**CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (continued)

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2009, none of the City's deposits in financial institutions were exposed to custodial credit risks.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income - State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES:

Neither receivables nor payables are aggregated in these financial statements. The City expects all receivables to be collected within one year.

4. INVENTORY

Inventory in the General Fund and enterprise funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

4. INVENTORY (continued)

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories of the governmental funds are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS

A summary of changes in general fixed assets for the year ended December 31, 2009 follows:

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 19,813	\$ 175,242	\$ -	\$ 195,055
Capital Assets				
Being Depreciated:				
Buildings	381,875	-	-	381,875
Improvements	4,626,459	-	-	4,626,459
Equipment	1,084,376	75,785	25,180	1,134,981
Totals	6,092,710	75,785	25,180	6,143,315
Less Accumulated				
Depreciation for:				
Building	210,520	7,138	-	217,658
Improvements	753,001	231,511	-	984,512
Equipment	591,503	49,456	25,180	615,779
Total	1,555,024	288,105	25,180	1,817,949
Total Capital				
Assets being				
Depreciated-				
Net	\$ 4,537,686	\$ (212,320)	\$ -	\$4,325,366

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Governmental Activity:				
Capital Assets				
Net	\$ 4,557,499	\$ (37,078)	\$ -	\$4,520,421
Depreciation expense was charged to functions as follows:				
General Government		\$ 89,313		
Public Safety		23,048		
Public Works		138,290		
Culture and Recreation		37,454		
		<u>\$288,105</u>		
Business-type Activities:				
Capital Assets				
Not Being Depreciated:				
Land	\$ 149,000	\$ -	\$ -	\$ 149,000
Capital Assets				
Being Depreciated:				
Buildings	550,000	-	-	550,000
Improvements	8,576,192	-	38,000	8,538,192
Equipment	121,393	2,521	2,500	121,414
Totals	<u>9,247,585</u>	<u>2,521</u>	<u>40,500</u>	<u>9,209,606</u>
Less accumulated				
Depreciation for:				
Building	193,921	11,000	-	204,921
Improvements	2,765,037	412,991	38,000	3,140,028
Equipment	85,675	7,189	2,500	90,364
Total	<u>3,044,633</u>	<u>431,180</u>	<u>40,500</u>	<u>3,435,313</u>
Total Capital				
Assets Being				
Depreciated-				
Net	<u>6,202,952</u>	<u>(428,659)</u>	<u>-</u>	<u>5,774,293</u>

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

6. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/09	Additions	Deletions	Balance 12/31/09
Business-type Activity				
Capital Assets				
Net	\$6,351,952	\$(428,659)	\$ -	\$5,923,293

Depreciation expense was charged to functions as follows:

Water	\$176,154
Sewer	255,026
	<u>\$431,180</u>

7. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Revenue</u>	<u>Compensated Absence</u>	<u>Totals</u>
Governmental Activities:			
Debt Payable, January 1, 2009	\$1,039,635	\$17,540	\$1,057,175
Additions	-	8,724	8,724
Retired	<u>(103,961)</u>	<u>(14,300)</u>	<u>(118,261)</u>
Debt payable, December 31, 2009	<u>\$ 935,674</u>	<u>\$11,964</u>	<u>\$ 947,638</u>
Due within One Year	<u>\$ 115,061</u>	<u>\$ 5,982</u>	<u>\$ 121,043</u>
Business-type Activities:			
Debt Payable, January 1, 2009	\$3,317,892	\$ 6,132	\$3,324,024

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT (continued)

	<u>Revenue</u>	<u>Compensated Absence</u>	<u>Totals</u>
Additions	\$ -	\$ 3,058	\$ 3,058
Retired	<u>(154,824)</u>	<u>(3,100)</u>	<u>(157,924)</u>
Debt payable, December 31, 2009	<u>\$3,163,068</u>	<u>\$ 6,090</u>	<u>\$3,169,158</u>
Due within One Year	<u>\$ 159,047</u>	<u>\$ 3,046</u>	<u>\$ 162,093</u>

Debt payable at December 31, 2009 is comprised of the following:

GOVERNMENTAL ACTIVITIES:

State Revolving Fund Loan serviced by Sales Tax Revenue, due in quarterly installments of \$13,726.29, including 5% interest. This loan is being retired by the General Fund. Matures in 2022

\$ 500,674

2001 Sales Tax Refunding Bonds; interest rate of 2.8% to 5% depending on length to maturity of individual bond; matures in 2014. The bond is being retired by the General Fund. The debt refunded by this issue was called and paid in full in 2001

135,000

2003 Refunding Certificates of Participation, 2.75% to 4.75% depending on length to maturity of individual bond; maturing annually to 2015, repaid by the General Fund. The debt refunded by this issue was called and paid in full in 2003.

300,000

Accrued leave, payable by General Fund

11,964

TOTAL GOVERNMENTAL ACTIVITIES DEBT

\$ 947,638

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT (continued)

BUSINESS-TYPE ACTIVITIES:

Revenue Bonds:

State Revolving Fund loans, payable to bank as trustee for the S.D. Department of Environment and Natural Resources, secured by the operating revenue of the fund servicing the debt, as follows:

Water Fund:

- | | | |
|----|---|------------|
| 1. | Due in quarterly installments of \$9,072.51, including 3.5% interest. Matures in 2024 | \$ 642,950 |
| 2. | Due in quarterly installments of \$19,157.95, including interest at 3.25%. Matures in 2027. | 1,008,836 |

Sewer Fund:

- | | | |
|----|---|--------------------|
| 1. | Due in quarterly installments of \$10,002.65, including 5% interest. Matures in 2022 | 364,852 |
| 2. | Due in quarterly installments of \$5,230.12, including 3.5% interest. Matures in 2022 | 214,425 |
| 3. | Due in quarterly installments of \$9,793.83, including 3.5% interest. Matures in 2024 | 432,122 |
| 4. | Due in quarterly installments of \$8,927.09, including 3.25% interest. Matures in 2028. | <u>499,883</u> |
| | Total Revenue Debt | <u>\$3,163,068</u> |

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT (continued)

Accrued leave, payable ½ and ½ by Water and Sewer funds	<u>6,090</u>
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TOTAL BUSINESS-TYPE ACTIVITY DEBT	<u>\$3,169,158</u>
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The annual requirements to maturity for all debt outstanding as of December 31, 2009 are as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2009

GOVERNMENTAL ACTIVITIES:

Year Ending December 31,	Revenue Principal	Interest
2010	\$ 115,061	\$ 45,862
2011	111,592	40,309
2012	113,201	34,512
2013	124,892	29,157
2014	136,570	23,060
2015-2019	213,353	61,173
2020-2023	<u>121,005</u>	<u>7,374</u>
 Total	 <u>\$ 935,674</u>	 <u>\$ 241,447</u>

BUSINESS-TYPE ACTIVITIES:

Year Ending December 31,	Revenue Principal	Interest
2010	\$ 159,047	\$ 111,778
2011	164,864	105,870
2012	170,898	99,837
2013	177,159	93,575
2014	183,655	87,079
2015 - 2019	984,623	367,053
2020 - 2024	1,021,801	125,684
2025 - 2028	<u>301,021</u>	<u>23,114</u>
 TOTAL	 <u>\$3,163,068</u>	 <u>\$1,013,990</u>

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

7. LONG-TERM DEBT (continued)

As of December 31, 2009, there was \$707,465 of Special Assessment Bonds outstanding. These will be paid solely from Special Assessment proceeds collected from citizens. The City is not liable for repayment of this debt, but is only acting as an agent for the property owners in collecting the assessments and forwarding the collections to the bondholders.

8. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

9. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2009 the City managed its risk as follows:

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$1,675,000 lifetime maximum payment per person.

The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the coverage during the past three years.

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

9. RISK MANAGEMENT (continued)

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Loss from these risks have not exceeded insurance coverage during any of the three preceding years.

Workmen's Compensation:

The City purchases liability insurance for workmen's compensation from a commercial carrier. Loss from these risks have not exceeded insurance coverage during any of the three preceding years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

10. RETIREMENT PLAN

All employees, except for part-time, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social

CITY OF HARTFORD
NOTES TO FINANCIAL STATEMENTS

10. RETIREMENT PLAN (continued)

security for general employees only. The City's share of contributions to the SDRS for fiscal years ended December 31, 2009, 2008 and 2007 were \$14,555, \$14,538 and \$14,046 respectively, equal to the required contributions each year.

11. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$1,651,786 in water system revenue bonds issued in 2005 and 2006. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,153,299. Principal and interest paid for the current year and total customer net revenue were \$134,921 and \$231,202, respectively.

The City has also pledged future sewer customers' revenues, net of specified operating expenses, to repay \$1,511,282 in sewer system revenue bonds issued in 2002, 2004 and 2007. Proceeds from the bonds provided financing for the construction of sewer system improvements.

The bonds are payable solely from sewer customer net revenues and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$2,023,759. Principal and interest paid for the current year and total customer net revenues were \$135,815 and \$146,988, respectively.

12. INTERFUND TRANSFERS

During 2009 the following transfers were made to the General Fund:

\$20,381 from the 2007 Improvement Fund to close this fund
2,128 from the Additional Sales Tax Fund to correct it for
revenue inadvertently credited to it in 2008
\$22,509 TOTAL

CITY OF HARTFORD
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND - (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2009

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$747,083	\$747,083	\$738,430
General sales and use taxes	250,000	500,000	459,893
Gross receipts tax	7,830	7,830	7,704
Amusement taxes	300	300	396
Penalties and interest	1,000	1,000	1,467
Licenses and Permits	109,220	109,220	86,262
Intergovernmental Revenue			
State shared revenue	65,400	65,400	65,791
County shared revenue	16,500	16,500	18,837
Charges for Goods and Services			
Culture and recreation	15,000	15,000	14,264
Fines and Forfeits			
Court fines and costs	1,600	1,600	2,004
Miscellaneous Revenue			
Investment earnings	22,500	22,500	16,449
Special assessments	32,487	32,487	39,601
Other	3,000	3,000	2,860
Total Revenue	\$1,271,920	\$1,521,920	\$1,453,958

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget
Positive
(Negative)

(\$8,653)

(40,107)

(126)

96

467

(22,958)

391

2,337

(736)

404

(6,051)

7,114

(140)

(\$67,962)

CITY OF HARTFORD
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2009

EXPENDITURES	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
General Government			
Legislative	\$21,400	\$23,469	\$22,743
Contingencies	60,000	60,000	0
Amount transferred	0	-32027	0
Executive	4,675	4,675	4,261
Elections	1900	1900	748
Financial administration	235,291	235,291	212,738
Other	42,665	102,665	99,092
Public Safety			
Police	134,560	140,031	127,468
Fire	706,800	756,800	288,811
Public Works			
Highways and streets	286,594	348,639	338,040
Culture and Recreation			
Recreation	536,541	536,541	82,904
Parks	84,045	109,045	106,197
Libraries	7,596	7,596	2,596
Conservation and Development			
Economic opportunity	67,904	67,904	49,429
Debt Service	103,205	787,465	256,015
Total Expenditures	2,293,176	3,149,994	1,591,042
Excess of Revenue over (under) Expenditures	(1,021,756)	(1,628,074)	(137,084)
Other Financing Sources (Uses):			
Transfers - in	0	405,109	22,509
Net Change in Fund Balance	(1,021,756)	(1,222,965)	(114,575)
FUND BALANCE-Beginning	967,090	967,090	967,090
FUND BALANCE-Ending	(\$54,666)	(\$255,875)	\$852,515

The accompanying notes to supplemental information are an integral part of the schedule

Variance with Final Budget Positive (Negative)
\$726
\$60,000
-32027
414
1152
22553
3573
12563
467989
10599
453637
2848
5000
18475
531450
1,558,952
1,490,990
(382,600)
1,108,390
0
\$1,108,390

CITY OF HARTFORD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP), except that capital outlays are reported separately in the GAAP statements, but are reported in the respective budgetary functions in the budgetary statements.

CITY OF HARTFORD
SCHEDULE OF CURRENT AUDIT FINDINGS

FINDING NUMBER 2009-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

CRITERIA: Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CONDITION, CAUSE AND EFFECT: The size of the accounting staff employed by the entity precludes an adequate segregation of duties.

RECOMMENDATION: The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

CITY RESPONSE: The City agrees with the auditor's comment and recommendation.

CITY OF HARTFORD
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

FINANCIAL STATEMENT FINDINGS:

FINDING NUMBER 2007-01 and 2008-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1998.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.

FINDING NUMBER 2008-02:

The "Hartford Fire and Rescue Department" was using the City's sales tax exemption license to purchase goods on a "sales tax-free" basis.

CURRENT STATUS:

The condition was resolved in 2009 when the "Hartford Fire and Rescue Department" incorporated as a non-profit corporation and ceased using the City's sales tax exemption license.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

FINDING NUMBER 2007-02:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties.

CURRENT STATUS:

The condition remains the same as of December 31, 2009.